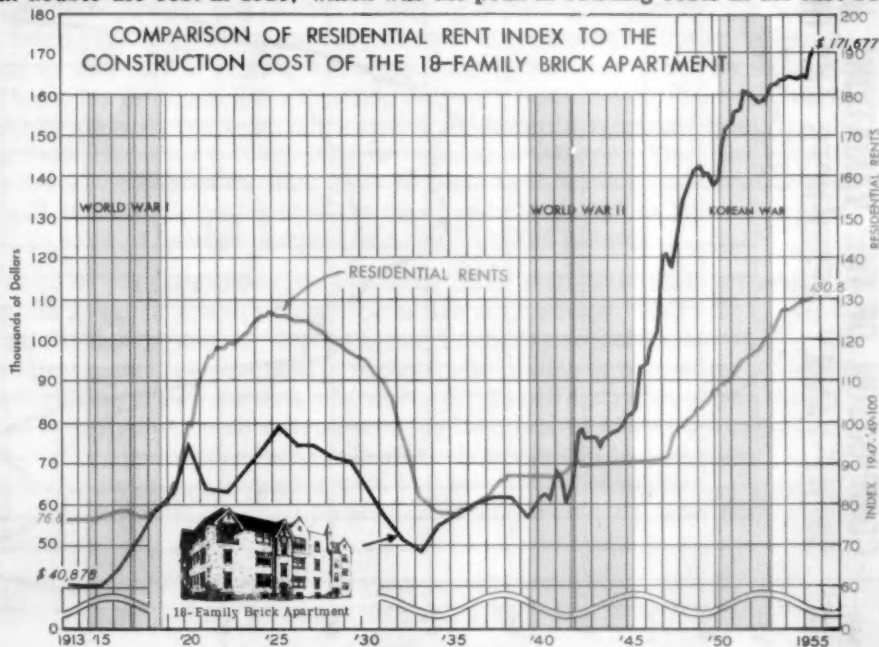




As I sell

RESIDENTIAL RENTS IN A FREE ECONOMY

I doubt if the average renter realizes the unique position that he is in at the present time. Residential rents are about half as high as we would expect them to be in view of the prices of other goods and services. They certainly are not high enough to furnish any strong incentive for the construction of new residential dwelling units for rent. I think this is quite strikingly shown by the chart at the bottom of this page. The replacement cost new of a typical 18-family brick apartment on this chart is shown as it has fluctuated from 1913 to the present in contrast to the fluctuations in residential rents. The index on rents is the one prepared by the Bureau of Labor Statistics of the Federal Government, a part of its consumer price index. Residential rents are now slightly higher than they were at the top of the boom of the twenties in 1924. On the other hand, the cost of building an 18-family apartment building is now considerably more than double the cost in 1925, which was the peak in building costs in the last boom.

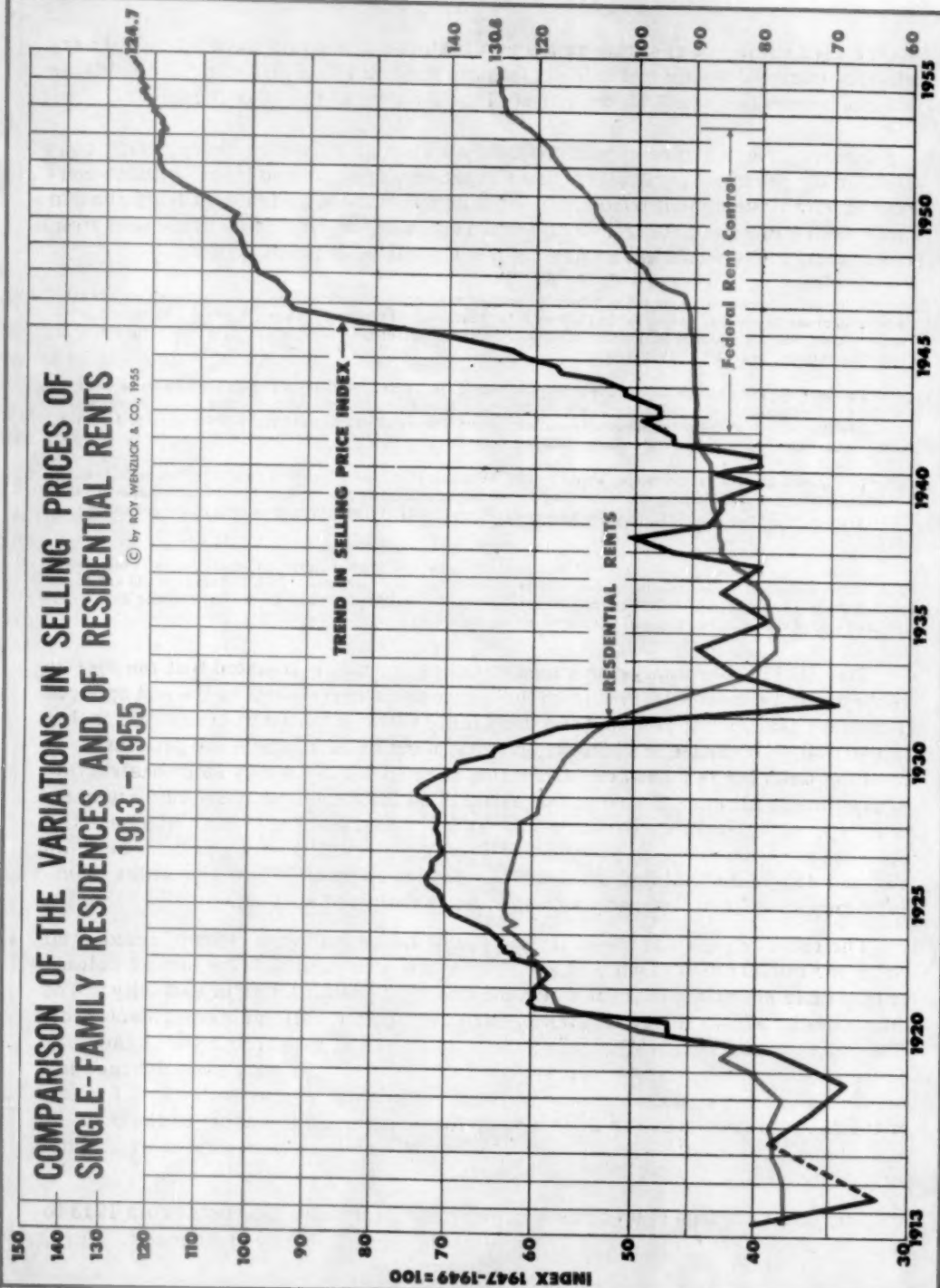


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Real Estate Economists, Appraisers and Consultants

COMPARISON OF THE VARIATIONS IN SELLING PRICES OF SINGLE-FAMILY RESIDENCES AND OF RESIDENTIAL RENTS 1913 - 1955

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In the meantime, real estate taxes and maintenance costs have advanced very sharply over the levels of 1925. It is quite apparent that under these conditions we can expect no great volume of buildings for rent in the near future.

Because rents had been held down for an 11-year period by Federal rent control, many persons, particularly those representing organized labor or those connected with Government bureaus in Washington, issued statements from time to time asking that rent control be continued because, were it to be dispensed with, residential rents would skyrocket. A few typical statements follow.

"In the large number of areas where minimum housing requirements have not yet been met, controls are still needed in order to prevent a skyrocketing of rents." (Testimony of Walter J. Mason, member, National Legislative Committee, American Federation of Labor, before Committee on Banking and Currency of the House of Representatives, March 10, 1953.)

"The proposals herein advanced reflect the concern of the UE and its members about the dangerous and impoverishing situation which will arise if present attempts to end overall Federal rent controls are successful." (Statement of Russ Nixon, Washington representative, United Electrical, Radio, and Machine Workers of America, before Committee on Banking and Currency, 1953.)

"To end rent control, at this time, would simply be adding more fuel to feed the fires of inflation. . . In all candor, I don't know what in God's name is going to become of these poor people if rent control terminates." (Statement of William A. Barrett, Congressman from Pennsylvania, before Committee on Banking and Currency, March 18, 1953.)

"As the President stated in his special message on rent control: 'A sudden and simultaneous removal of rent controls on a national scale would precipitate a wave of exorbitant rent increases. Such increases would seriously reduce the purchasing power of millions of families.' " (Statement made by Tighe E. Woods, Housing Expediter, before the Committee on Banking and Currency, May 8, 1950.)

The Real Estate Analyst in its reports has constantly insisted that the rise in rents would be moderate, and from the beginning of rent control to the end opposed it on the basis that it defeated the very thing it was created to cure. We maintained that an increase in rents would bring about an increase in the production of dwelling units for rent, and that a freezing of rents would not only stop construction of practically all units for rent, but would in addition remove many existing units from the rental market through sale to individual owners. Such has been the case, as the percentage of dwelling units built for rent has declined from between 40% and 45% in the building boom of the twenties to from 10% to 15% at the present time, in spite of insured mortgages and subsidized housing.

The table on page 532 shows the Bureau of Labor Statistics index of residential rents for the 20 cities in which these figures are accumulated. The second column in this table shows the date for which the last figure is available in each city. The third column shows the rent index in each city immediately preceding decontrol. The fourth column shows the date of decontrol. The fifth column shows the percentage of increase since decontrol, and the last column shows the average increase in rents per month since rents were decontrolled in each city. In view of the fact that rents are at such a very low level in relationship to the past, it has been quite surprising to many people that they have not increased more rapidly since decontrol.

The chart on page 530 shows a comparison of residential rents from 1913 to the present with the selling prices of existing single-family residences. Here,

RESIDENTIAL RENT INDEX
(1947-49 = 100)

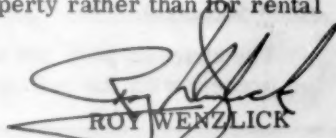
City	Current	Date of Current Figure	Index Preceding Decontrol	Date of Decontrol	% Increase	Average Increase Per Month
Atlanta	134.5	9/55	121.3	9/52	10.9	0.3%
Baltimore	126.7	9/55	*	*	*	*
Boston	124.1	7/55	†	†	†	†
Chicago	151.8	9/55	123.5	7/53	22.9	0.9
Cincinnati	131.9	6/55	115.4	4/53	14.3	0.6
Cleveland	144.6	8/55	124.6	7/53	16.1	0.6
Detroit	142.4	10/55	115.5	9/52	23.3	0.6
Houston	137.6	8/55	113.8	10/49	20.9	0.3
Kansas City	138.4	10/55	124.8	7/53	10.9	0.4
Los Angeles	139.2	5/55	116.5	12/50	19.5	0.4
Minneapolis	141.4	7/55	122.7	7/53	15.2	0.6
New York	117.8	7/55	†	†	†	†
Philadelphia	116.5	8/55	*	*	*	*
Pittsburgh	125.1	10/55	116.1	7/53	7.8	0.3
Portland, Oreg.	130.8	7/55	109.0	12/50	20.0	0.4
St. Louis	136.0	6/55	117.1	7/53	16.1	0.7
San Francisco	132.1	6/55	122.1	7/53	8.2	0.4
Scranton	123.3	5/55	118.8	7/53	3.8	0.2
Seattle	137.7	8/55	123.0	9/52	12.0	0.3
Washington, D.C.	123.5	5/55	118.6	6/53	4.1	0.2

*City rent control

†State rent control

Source of index figures: Bureau of Labor Statistics, United States Department of Labor.

too, it will be noticed that residential rents are roughly half as high as we would expect them to be from the relationships prior to 1940. It is my opinion that the low downpayment loan on single-family residences, amortized over a long period of years, will prevent residential rents from rising to the old relationship with construction costs in the foreseeable future. The average family will not pay more in rent than the monthly cost of ownership of comparable space, and in a great many cases, the average family is willing to pay slightly more than the cost of rent in view of the larger area, greater yard space and greater flexibility in the use of owned space. Pride of ownership probably is another consideration which is helping to increase the demand for owned property rather than for rental units.


ROY WENZLICK